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DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
OFFICE OF FINANCIAL AND INSURANCE REGULATION
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BILL ANALYSIS

BILL NUMBER: HB 4455 (H1)

TOPIC: Reassign Authority for Michigan Assigned Claims Facility to the Michigan Automobile Insurance Placement Facility

SPONSOR: Shaughnessy

CO-SPONSORS: None

COMMITTEE: Committee on Insurance

Analysis Done by: Office of Financial and Insurance Regulation;
September 20, 2011

ADMINISTRATION POSITION

The Administration supports this legislation.

PROBLEM/BACKGROUND

The Michigan Assigned Claims Facility (ACF) was created in 1973 to pay benefits for people injured in a motor vehicle accident who have no insurance coverage and are not required by statute to carry insurance. The Michigan Secretary of State (SOS) under the authority of the Michigan Insurance Code (MCL 500.3171) currently administers the ACF with five full-time employees.

The ACF reimburses automobile insurers for any personal injury protection insurance (PIP) benefits that are available under Michigan's no-fault law (e.g. medical expenses, wage loss, survivor's benefits). Each claim submitted to the SOS is screened to determine basic eligibility requirements and is then assigned to one of eight participating Michigan insurance companies, known as servicing insurers, for payment of benefits. The servicing insurer is then reimbursed by the ACF for the amount paid to the claimant. The servicing insurer may also request reimbursement for administrative expenses related to the cost of servicing these claims. The SOS annually assesses all companies and self-insurers who write auto

insurance in Michigan for the total cost of operating the ACF and the servicing of its claims.

The overall cost of administering the ACF continues to increase. The assessment for the ACF has increased from \$83 million in 2004 to approximately \$160 million in 2009.

The Michigan Automobile Insurance Placement Facility (MAIPF) is created under Chapter 33 of the Michigan Insurance Code to guarantee that automobile insurance is available to those Michigan citizens who are unable to obtain automobile insurance in the competitive market. It operates as a pooling mechanism under which a limited number of companies act as servicing carriers, similar to the current mechanism utilized by the ACF. The MAIPF's administrative and operating costs are shared among automobile insurance companies through an assessment in proportion to their competitive market business. The MAIPF and its members are in a unique position to examine the claims paid through ACF, determine why they are outpacing claims in the insured market, and make recommendations for change.

DESCRIPTION OF BILL

The proposed legislation would transfer the ACF from the SOS to the MAIPF. The ACF would be organized to function as a separate entity from the MAIPF. The MAIPF Board of Governors must adopt an assigned claims plan and submit it to the OFIR Commissioner for approval. If the Commissioner fails to render a written decision on the plan within 30 days, the plan is considered approved. These proposed changes will establish guidelines for the operation of the ACF with the oversight of the MAIPF Board of Governors and the OFIR Commissioner.

The expenses incurred by the SOS related to the transfer of operations to the MAIPF are to be reimbursed by the MAIPF. Any claim for financial benefits that is knowingly false will be considered a fraudulent insurance act and subject to penalties under section 4511. Any default in payment of installments under a judgment as agreed subjects the debtor to suspension or revocation of his or her motor vehicle license.

SUMMARY OF ARGUMENTS

Pro

The cost of claim payment through the ACF continues to increase at a rapid rate and these costs are passed on to all Michigan policyholders. The ACF staff does not have the expertise to provide oversight of individual claim files, acting primarily as an entity that assesses and pays insurance companies for servicing claims. The MAIPF has the

technical expertise to evaluate the costs of the system and make recommendations for improvement.

The MAIPF also has experience supervising automobile insurance servicing carriers, maintaining a system for computing and collecting assessments from member insurers, and dealing directly with insurance company claims personnel. The MAIPF currently has working relationships with six of the eight ACF servicing insurers. This experience will allow the MAIPF to ensure consistency of claims among the servicing carriers and also to find additional efficiencies and savings in the operation of the ACF plan. This additional oversight would also enable the MAIPF to more closely monitor possible fraudulent activity and reject inappropriate claims, which would further reduce the cost of operating the system. Any operational savings from these measures would be passed on to insurance companies and subsequently to all Michigan policyholders.

Con

The Commissioner would have some input into the ACF's assigned claims plan; however, the majority of the day-to-day operations would be handled outside the direct oversight of governmental authority.

FISCAL/ECONOMIC IMPACT

OFIR has identified the following revenue or budgetary implications in this bill:

(a) To the Office of Financial and Insurance Regulation: None

Budgetary:

Revenue:

Comments:

(b) To the Department of Licensing and Regulation Affairs: None known.

Budgetary:

Revenue:

Comments:

(c) To the State of Michigan:

Budgetary: The SOS may potentially incur a loss of up to five full time employees.

Revenue:

Comments:

(d) To Local Governments within this State: None known.

Comments:

OTHER STATE DEPARTMENTS

The Secretary of State expressed support for the elimination of its oversight of this function.

ANY OTHER PERTINENT INFORMATION

This proposal was previously introduced in April 2010 as HB 6096.

ADMINISTRATIVE RULES IMPACT

The proposed legislation would amend the Michigan Insurance Code. OFIR has general rulemaking authority under the Insurance Code, 1956 PA 218.



Kevin Clinton
Commissioner

9/21/11

Date